

Message Text

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ACTION EB-04

INFO OCT-01 ISO-00 SS-04 EUR-03 NSC-04 CEA-01 FRB-03
INR-01 CIAE-00 /021 W
-----124517 261203Z /14

P R 261114Z MAY 78
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC PRIORITY
SECSTATE WASHDC PRIORITY 6531
INFO AMEMBASSY BONN
AMEMBASSY ROME
AMEMBASSY TOKYO
AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 01 OF 03 LONDON 08363

USEEC
USOECN ALSO FOR EMBASSY

LIMDIS GREENBACK

E.O. 11652: XGDS-1
TAGS: EFIN, UK
SUBJECT: U.K. VIEWS ON EC MONETARY COMMITTEE AND
FINANCE MINISTERS SESSIONS AND RELATED
INTERNATIONAL MONETARY ISSUES

SUMMARY: HMG SOURCES DENY THAT THERE IS ANY U.K.-
GERMAN DEAL ON GROWTH VERSUS MONETARY STABILITY.

NOR, THEY SAY, SHOULD HEALEY'S COMMENT ON STERLING
ENTERING SOME FORM OF EC MONETARY ARRANGEMENT BE SEEN
AS ANYTHING MORE THAN A WILLINGNESS TO STUDY THE
POSSIBILITIES AND COSTS OF VARIOUS PROPOSALS.
SENIOR U.K. OFFICIALS CLAIM THEY ARE STILL IN THE DARK
ABOUT DETAILS OF SCHMIDT'S MONETARY STABILITY SCHEME.
END SUMMARY.
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MAY 11-12 MONETARY COMMITTEE SESSION

1. TREASURY REP HAS DISCUSSED U.K. POSITIONS WITH
SENIOR BANK OF ENGLAND AND HM TREASURY OFFICIALS,
INCLUDING THOSE WHO ATTEND EC MONETARY AND FINANCE
COUNCIL SESSIONS. THEY REPORT HEALEY'S COMMENTS AT

MAY 22 FINANCE COUNCIL REFLECT POSITIONS TAKEN AT PREVIOUS MONETARY COMMITTEE SESSION ON 11-12 MAY. THAT SESSION BEGAN WITH BELGIANS ASKING IF SNAKE IN PRESENT FORM WAS UNLIKELY TO INDUCE OTHER NON-SNAKE MEMBERS TO REJOIN, THEN WHAT AMENDED FORM OF SNAKE WOULD BRING THEM BACK. THIS IN PART AN ATTEMPT TO DON'T KNOW WHAT THE BLOODY THING IS".

2. WE ARE TOLD U.K. REPS AT MONETARY COMMITTEE SESSION TOOK POSITION THAT IN THEORY THERE ARE TWO EXTREME VIEWS ON TWO ISSUES WHICH WOULD ESTABLISH THE PARAMETERS OF DISCUSSION.

A. EUROPEAN MONETARY STABILITY CANNOT PROCEED WITHOUT TAKING INTO FULL ACCOUNT THE WORLD AT LARGE AND NON-EC CURRENCIES, OR, THE REVERSE; EMU CAN PROCEED TO STABILITY WITHOUT ANY CONSIDERATION OF EXTERNAL FACTORS.

B. UNLESS THERE IS ECONOMIC CONVERGENCE, IT IS POINTLESS TO ESTABLISH MACHINERY TO BRING ABOUT GREATER POLICY CONVERGENCE, OR THE REVERSE; ESTABLISH THE MACHINERY AND IT WILL ENFORCE POLICY CHANGE AND ECONOMIC CONVERGENCE.

THE ANSWER IN EITHER CASE IS SOMEWHERE BETWEEN THE
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EXTREMES. THE EC WANTS TO WORK TOWARDS SETTING UP EUROPEAN ARRANGEMENTS IN THE FRAMEWORK OF CONCERTED EUROPEAN ACTION AT BREMEN AND BONN, BUT THERE IS ALSO A NEED TO THINK IN TERMS OF REAL ECONOMIES. ALL THIS SAID, IT IS STILL TOO IMPRECISE. EC MONETARY COMMITTEE DELEGATES STILL DIDN'T KNOW WHAT GERMANS WERE PROPOSING AND WERE HAMPERED AS A RESULT.

3. WEBER AND POEHL TOOK POSITION THAT ON MONETARY STABILITY "ONE SHOULD NOT MESS ABOUT"--EITHER HAVE RULES AND COMMITMENTS ON RATES THAT COULD BE PUBLISHED AND HELD TO, OR DON'T; ANYTHING ELSE WOULD BE INEFFECTIVE. THERE COULD BE A GRACE PERIOD FOR OTHER COUNTRIES REJOINING TO REESTABLISH DISCIPLINE, AIDED BY CREDITS AND CONDITIONALITY. THE DUTCH (SAAS) ALSO WARNED AGAINST DOING ANYTHING TO DIMINISH THE IMPORTANCE OF THE SNAKE--WHAT IS NEEDED IS TO BRING NON-SNAKE COUNTRIES TO ACCEPT GREATER DISCIPLINE.

4. FRENCH REP BASQUIAST, (PERHAPS WITHOUT INSTRUCTIONS) SAID HE COULD ENVISAGE A FOUR-CURRENCY POLE SITUATION IN THE EC NOT MUCH DIFFERENT FROM PRESENT: A DM ZONE

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INFO OCT-01 ISO-00 SS-04 EUR-03 NSC-04 CEA-01 FRB-03
INR-01 CIAE-00 /021 W
-----124557 261204Z /12

P R 261114Z MAY 78
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC PRIORITY
SECSTATE WASHDC PRIORITY 6532
INFO AMEMBASSY BONN
AMEMBASSY ROME
AMEMBASSY TOKYO
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LIMDIS GREENBACK

SNAKE; THE U.K. AND IRELAND; FRANCE; AND ITALY.
THERE IS NO GUARANTEE THAT OVER TIME CURRENCIES IN THE
SNAKE WILL DIVERGE LESS THAN ONES OUTSIDE IT. AN
ENLARGED SNAKE MIGHT ENVISAGE RESERVE POOLING AND
RESOURCE TRANSFER, HELP TO AVOID WIDER SWINGS, AND
PROVIDE FOR LONGER TERM CREDITS. BASED ON PAST PER-
FORMANCE, HOWEVER, HE ASKED WHAT ARE THE VIRTUES OF
A SNAKE THAT HAS LOST THREE MAJOR CURRENCIES.

5. THROUGHOUT THE SESSION, DELEGATES TRIED TO DRAW
OUT GERMANS ON DETAILS OF SCHMIDT PROPOSAL.

AT DINNER THAT EVENING, IRISH
DELEGATE ASKED OBVIOUS QUESTION, "WHAT THE HELL ARE
WE TALKING ABOUT?" WEBER PROMISED TO TRY AND BE MORE
FORTHCOMING IN FUTURE, AND TO TRY TO PROVIDE A PAPER
WITH GERMAN IDEAS AS BASIS OF OR FOR INCLUSION IN AN
INTERIM REPORT TO MINISTERS.

6.A.IN A SUMMATION, VAN YPERSELE SAID MONETARY COMMITTEE
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WOULD EXAMINE VARYING HYPOTHESES, SOME MORE AMBITIOUS THAN OTHERS. ALL ALTERNATIVES INCLUDE MOVING FROM A RELATIVELY FIXED POINT TO ANOTHER RELATIVELY FIXED POINT, ALTHOUGH POINTS CAN BE ABANDONED.

B. U.K. REPLY WAS THAT THIS DOES BRING EXCHANGE RATE POLICIES MORE TO THE FORE, REQUIRES ADJUSTMENT OF OTHER POLICIES AS THE VARIABLES. EC MAY NOT BE SUFFICIENTLY ENDOWED TO MAKE SUCH A POLICY WORK SINCE IT IMPLIES A) FAIRLY FREE TRANSFER OF RESOURCES WITHIN THE REGION IN THE LONGER TERM FROM RICHER TO POORER MEMBERS, OR FROM THOSE IN SURPLUS TO THOSE IN DEFICIT AND B) POTENTIALLY SIZEABLE RESOURCES IN THE SHORTER TERM FOR INTERVENTION; THESE SHOULD BE IN SUFFICIENTLY CONFIDENTIAL FORM THAT MARKETS WILL NOT BE ABLE TO ACCURATELY GUESS LEVELS OF INTERVENTION, DEGREE TO WHICH SWAP LINES ARE DRAWN DOWN, AND POTENTIAL CRISIS POINTS. THESE TWO CONDITIONS INVOLVE A PRICE FOR BOTH CREDITOR AND DEFICIT COUNTRIES.

C. RESULT, ACCORDING TO SOURCE, WAS AGREEMENT THAT PAPER TO BE PREPARED WILL TRY TO EVALUATE BOTH ADVANTAGES AND DISADVANTAGES SO MINISTERS CAN BETTER UNDERSTAND "WHERE THEY ARE STEERING". THE PAPER HOWEVER, IS NOT, RPT NOT, DIRECTLY RELATED TO COPENHAGEN DISCUSSIONS.

MAY 22 EC FINANCE COUNCIL

7. SOURCE EXPLAINED ABOVE ELABORATION NECESSARY IN ORDER TO SET EC FINANCE COUNCIL DISCUSSIONS IN CONTEXT. ORTOL AND VAN YPERSELE REVIEWED ABOVE, AND COUNCIL AGREED MONETARY COMMITTEE SHOULD BE INVITED TO PRESENT ALTERNATIVE PROPOSALS FOR GREATER EXCHANGE RATE STABILITY. POSSIBILITIES WILL BE EXAMINED, BUT CONFIDENTIAL

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IN U.K. VIEW, THEY ARE NOT GOOD IN SHORT-TERM, GIVEN DIFFERENCE IN EXTERNAL AND DOMESTIC SITUATIONS AMONG MEMBERS. IN ADDITION, WHILE CURRENCY STABILITY IS ONE ELEMENT, IT IS NOT THE ONLY ONE. U.K. WOULD STILL LIKE TO SEE IT IN A LARGER INTERNATIONAL COMPONENT AND (SENIOR OFFICIALS AT LEAST) STILL DON'T KNOW WHAT IS CONTAINED IN THE SCHMIDT PLAN.

8. A. RUN-DOWN HEARD HERE ON DISCUSSION OF COMMON ECONOMIC STRATEGY SIMILAR TO THAT IN PARA 2, BRUSSELS 1004, ALTHOUGH GERMAN STATE SECRETARY SCHLECT WHEN DAMPENING ENTHUSIASM FOR GROWTH SAID PRESIDENT CARTER'S

ECONOMIC ADVISORS ARE ALSO CAUTIOUS ON THIS POINT. SOURCE SAID THERE IS SOME APPREHENSION IN EUROPE THAT THE GERMANS, IN CONSTANT TRIPS TO WASHINGTON, MAY CONVINCE THE U.S. TO "LAY OFF IT, I.E., PRESSURE FOR GROWTH, AT THE SUMMIT". SCHLECT AT ONE POINT SAID THE COMMUNITY SHOULD BE REALISTIC, BUT ALSO ADDED BONN SUMMIT MUST BE SUCCESSFUL.

B. SOURCE SAID DURING THE DISCUSSION, GERMANS WERE ISOLATED ON GROWTH. HEALEY REMARKED OF SCHLECT'S PRESENTATION THAT "A CENTRAL BANKER TAKES AWAY THE PUNCH BOWL WHEN THE PARTY IS GETTING GOOD; BUT SCHLECT LOCKED THE WINE CELLAR BEFORE THE GUESTS ARRIVED".

9. ON OTHER POINTS, SOURCE FLATLY DENIED THERE HAD BEEN ANY U.K.-GERMAN DEAL ON GROWTH AND CURRENCY STABILIZATION, AND HAS SO RESPONDED TO ENQUIRIES FROM GERMAN EMBASSY IN LONDON.

10. A. HEALEY'S COMMENTS TO PRESS THAT U.K. WAS PREPARED TO STUDY DETAILED PROPOSALS FOR ASSOCIATING

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INFO OCT-01 ISO-00 SS-04 EUR-03 NSC-04 CEA-01 FRB-03
INR-01 CIAE-00 /021 W
-----124700 261203Z /41

P R 261114Z MAY 78
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC PRIORITY
SECSTATE WASHDC PRIORITY 6533
INFO AMEMBASSY BONN
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STERLING WITH OTHER EC CURRENCIES ARE NOT SEEN AS NEW. U.K. WILL STUDY ANYTHING. ONE SOURCE SAID CHANCELLOR "WOULD NOT BE DISPLEASED" IF HIS TONE SOUNDED POSITIVE,

BUT IT WOULD BE DIFFICULT TO PIN HIM DOWN ON SPECIFICS.
WHEN ASKED BY A JOURNALIST IF HE WAS MUCH MORE POSITIVE
ON SNAKE ENTRY, HEALEY REPORTEDLY REPLIED: "I'VE SAID
THIS MANY TIMES; I DO NOT EXCLUDE THE POSSIBILITY
OF THE U.K. REENTERING THE SNAKE PROVIDED THE CONDI-
TIONS ARE RIGHT." HEALEY DID NOT ELABORATE ON THE
CONDITIONS.

B. A SENIOR OFFICIAL AT BANK OF ENGLAND WAS SURPRISED
HEALEY EVEN SAID AS MUCH AS HE DID ON THIS POINT, BUT
DOUBTED THERE WOULD BE ANY SUBSTANTIVE SHIFT IN THE
U.K.'S BASIC POSITION--I.E., CALLAGHAN'S FIVE POINTS--
AT LEAST UNTIL AFTER A U.K. ELECTION.

11. SOURCES WHO HAVE ATTENDED MONETARY COMMITTEE AND
FINANCE COUNCIL PERSONALLY SHOW SOME RESERVATIONS ABOUT
THE DEGREE OF PROGRESS THAT CAN REALISTICALLY BE
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EXPECTED AT THE SUMMIT. ONE SPECULATES THAT SCHMIDT'S
MONETARY PLAN AND FOCUS ON MONETARY STABILITY MAY BE
DESIGNED TO DIVERT ATTENTION FROM THE GROWTH ISSUE.

A. SOURCES DID NOT COMMENT ON OR INDICATE AWARENESS
OF SUBSTANCE OF ECONOMIST ARTICLE MAY 27 DATED
BRUSSELS (A) THREE-MAN GROUP (SCHULMANN OF GERMAN
CHANCELLERY, CLAPPIER OF BANK OF FRANCE, AND KEN COUZENS,
HM TREASURY) ARE WORKING ON PREPARATIONS OF THE NEW
EC CURRENCY ZONE AND (B) THAT CHANCELLOR HEALEY HAD
CHANGED HIS TUNE ON CURRENCIES THANKS TO AMERICAN PRES-
SURE; "THE CARTER ADMINISTRATION HAS DISCRETELY INFORMED
THE NINE'S GOVERNMENTS THAT IT STRONGLY SUPPORTS MR.
HELMUT SCHMIDT'S PLAN FOR A NEW EEC CURRENCY ZONE".

B. EMBASSY WOULD APPRECIATE GUIDANCE ON ACCURACY
OF LATTER POINT.

STREATOR

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCE, POLICIES, ECONOMIC STABILITY, COMMITTEES, FINANCIAL PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 26 may 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LONDON08363
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X1
Errors: N/A
Expiration:
Film Number: D780222-1066
Format: TEL
From: LONDON
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780515/aaaaamck.tel
Line Count: 317
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 0ce2b695-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 28 jun 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2552846
Secure: OPEN
Status: NATIVE
Subject: U.K. VIEWS ON EC MONETARY COMMITTEE AND FINANCE MINISTERS SESSIONS AND RELATED INTERNATIONAL MONETARY ISSUES
TAGS: EFIN, UK
To: TRSY STATE MULTIPLE
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/0ce2b695-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014